

### Summary:

## Massachusetts Water Pollution Abatement Trust; State Revolving Funds/Pools

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Credit Profile		
Massachusetts Wtr Poll Abatement Trust (MWRA loan prog)		
Long Term Rating	AAA/Stable	Affirmed
Massachusetts Wtr Poll Abatement Tr (Pool Ln Prog)		
Long Term Rating	AAA/Stable	Affirmed
Massachusetts Wtr Poll Abatement Tr (Sesd In Prog)		
Long Term Rating	AAA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services has affirmed its 'AAA' long-term rating on Massachusetts Water Pollution Abatement Trust's (MWPAT) bonds, including various series of pool state revolving fund (SRF) bonds, Massachusetts Water Resources Authority's (MWRA) SRF bonds, and South Essex Sewerage District's (SESSED) SRF bonds. The rating reflects our opinion of the revolving fund pool's credit strengths, including:

- The pool's strong cash flows and debt service reserves that allow the pool to meet Standard & Poor's default tolerance criteria at the 'AAA' level;
- A very large pool size, diversity, good borrower credit quality, and positive history of program management;
- The pool's very strong structural security features, including a state aid intercept, access to a deficiency fund, and a pool program reserve in addition to the program debt service reserve fund; and
- The commonwealth's (AA/Stable) general obligation (GO) pledge to make significant contract assistance payments on behalf of the borrowers.

Securing pool SRF bonds are revenues from borrower repayments, commonwealth assistance payments, and earnings on the reserve funds, along with the availability of series reserve funds; MWRA and SESSED SRF bonds are secured primarily with loan repayments from those specific entities, series reserve funds, reserve earnings, and the deficiency fund. Series reserve funds are sized between 33% and 50% of the original principal of the loans.

Excess pool SRF revenues and reserve fund deallocations flow to a pool program reserve fund pledged to senior-lien bonds and then to a deficiency fund available for debt service on senior-lien, subordinate-lien, MWRA, and SESSED bonds. Reserve fund deallocations related to MWRA and SESSED bonds flow directly to the deficiency fund (unless a series is refunded with pool SRF bonds; in that case deallocations flow to the pool program reserve fund). If there is a shortfall, in order to pay debt service on subordinate-lien, MWRA, or SESSED bonds, the trustee is able to pull revenues from the pool program reserve fund into the deficiency fund.

The trust administers the commonwealth's state-revolving fund programs to provide financial assistance to local governments, public authorities, and certain private entities for water pollution abatement and drinking water projects. The trust is actively administered and has a proven history of originating and servicing loans to many

Massachusetts communities. MWPAT works jointly with the Massachusetts Department of Environmental Management and the Massachusetts Department of Health to identify projects for state-revolving fund loans. Due to regularly performed borrower monitoring and strong security provisions backing each loan agreement, the trust has not experienced loan defaults or delinquencies. Historically, the trust issues new-money bonds for the pool program annually.

MWPAT is an active program, and more than 235 of the commonwealth's 351 cities and towns have participated in MWPAT programs in the trust's 18-year history, with 28 other water and sewer districts also using the program. Total bonds outstanding are:

- \$3.1 billion pool SRF bonds,
- \$118 million MWRA SRF bonds,
- \$6.4 million SESD SRF bonds, and
- \$99.5 million New Bedford SRF bonds.

Following this issuance, more than 280 borrowers will have roughly \$3.5 billion of loans outstanding; a GO pledge backs roughly 70% of the loan portfolio with water or sewer revenue pledges backing the remainder of loans. The pool's largest borrower is Massachusetts Water Resources Authority (AA+/Stable), representing about 30% of all pool loans outstanding. We do not view this as a credit concern given the authority's own credit strength (senior-lien debt rated AA+/Stable).

## Outlook

The stable outlook reflects the borrowers' strong and diverse credit profile and Standard & Poor's expectation that the system's strong operating and financial performance will continue, coupled with the maintenance of the sizable reserves required by the program's structure.

## Related Criteria And Research

USPF Criteria: Long-Term Municipal Pools, Oct. 19, 2006

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